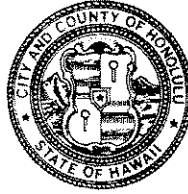


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MUFI HANNEMANN
MAYOR



April 15, 2008

MARY PATRICIA WATERHOUSE
DIRECTOR

RECEIVED K. OTO
DEPUTY DIRECTOR

The Honorable Todd K. Apo, Chair
and Members of the Budget Committee
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawaii 96813

RECEIVED
2008 APR 17 A 9:13
CITY COUNCIL
HONOLULU, HAWAII

Dear Chair Apo and Councilmembers:

This responds to questions posed at the April 10, 2008, Special Budget Committee meeting. We specifically were asked to clarify how vacancy cuts are calculated and incorporated into the budget. We hope that the methodology outlined below provides clearer information on how the vacancy cut figures are calculated and how they are applied.

Vacancy Cut

As part of normal operations, departments experience varying levels of attrition due to a variety of reasons such as retirement, promotion, transfer, resignation, or termination. Due to the amount of time needed to recruit and select a new employee, the full annualized salary for these positions may not be required. Therefore, the Administration calculates a related amount to be deducted from an agency's salary budget. This deduction is referred to as a "vacancy cut."

In using a vacancy cut, the department's total salary budget is reduced by a lump sum dollar amount before the budget is submitted to the City Council. A citywide formula is divided into two categories: public safety and non-public safety departments. Within the two categories, the percentage of vacancy cut that is applied based on the relative size of an agency's total salary budget. See Attachment #1 for a breakdown of the vacancy cut formula.

The vacancy cut formula is utilized in order to apply impartial, fair, and uniform vacancy cuts to City agencies. Larger departments generally have more flexibility to adjust for the filling of positions, and, therefore, can handle a higher percentage of vacancy cuts. The vacancy cut amounts are implemented on a lump-sum basis and is not a way to reduce the funding for specific positions.

The Honorable Todd K. Apo, Chair
and Members of the Budget Committee
April 14, 2008
Page 2

The current procedure is described as part of the annual budget instructions that are issued to all City agencies.

Agency Lapses

The execution of a budget is a fluid exercise, and the figures in a budget are not static. During the course of a year, agencies may require more or less monies for specific line items. A consequence is the accumulation of savings. However, as responsible fiscal managers, we do not allow agencies to spend any of these savings at will. We properly monitor those expenditures to ensure those unanticipated expenditures are appropriate and necessary. Those savings that are unexpended by year end result in agency lapses.

Recognizing this, we try to properly account for these lapses. In preparing the FY 2009 budget, the Administration, after reviewing the actual agency experiences, increased the agency lapses to five percent of departmental appropriations from three percent in past years.

This Administration has been aggressively pursuing all options to reduce expenses and maximize existing revenue sources. We would like to continue working with the City Council to refine our current policies and practices in order to avoid drastic and unknown changes to the budget and City operations. Consequently, we appreciate this opportunity to further explain our methods and practices, and I would be pleased to respond to any additional questions you may have.

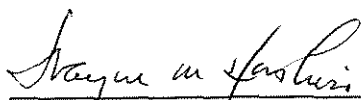
Sincerely,



Mary Patricia Waterhouse, Director
Department of Budget and Fiscal Services

Attachment

APPROVED:



Wayne M. Hashiro, P.E.
Managing Director

Attachment #1

Vacancy Cut Formula

Applies to City Funds Only
(Excludes Federal and State Funds)

Vacancy Cut Formula:

Apply across-the-board percentage cuts based on 2 categories -- 1) public safety and 2) non-public safety, and amount of base salaries*, as follows:

	<u>Size</u>	<u>Agency</u>	<u>Vacancy Cut</u>
<u>Public Safety</u>			
< \$10M in base salaries	Small	MED, ESD	0.0%
\$10 to \$100M in base salaries	Med - Large	PAT, HFD	-1.5%
> \$100M in base salaries	Extra Large	HPD	-3.0%
<u>Non-Public Safety</u>			
< \$3M in base salaries	Extra Small	MAY, OCD, NCO, DCS, MDO, RHB	0.0%
\$3 to 10M in base salaries	Small	COR, DHR, DTS, DIT	-3.0%
\$10 to 20M in base salaries	Medium	DES, CSD, DPP, BFS, DDC	-6.0%
\$20 to 100M in base salaries	Large	DFM, DPR, ENV	- 9.0%

* Base Salaries = Regular Pay + Salary Adjustments (such as lump sum pay raises, merit raises for attorneys, reallocations, lump sum City Council additions, funding adjustments, etc.)